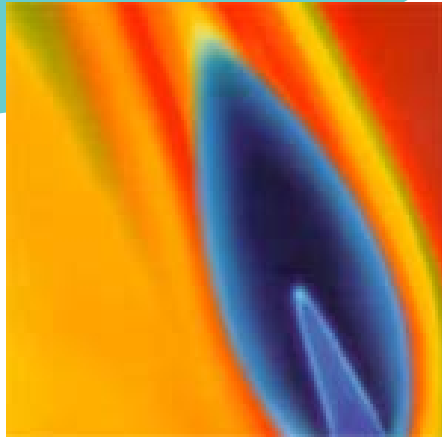


September 29, 2003

**INDIANA UTILITY REGULATORY
COMMISSION**



**GAS REPORT
TO THE
REGULATORY FLEXIBILITY
COMMITTEE OF THE
INDIANA GENERAL ASSEMBLY**

Chairman William D. McCarty

Commissioner David W. Hadley

Commissioner Judith G. Ripley

Commissioner Larry S. Landis

Commissioner David E. Ziegner

TABLE OF CONTENTS

Executive Summary	
Natural Gas Industry Overview	1
Industry Structure	1
Investor-Owned	1
Not-For-Profit Utilities	1
Indiana Sales and Transportation of Gas	2
The Natural Gas Market	2
2002-03 Winter Market Conditions	2
Market Projections for Gas and Demand	4
Possible Effects of tight Natural Gas Supplies	
On Economic Recovery	6
Commission Actions Addressing Price Volatility, Supply Reliability	
And Customer Assistance Programs	7
Routine Commission Review of Gas Prices and Supply	7
NIPSCO's Dependable Bill Program	7
NIPSCO's Gas Cost Adjustment	8
LDC Presentations to Commission	8
Citizens Gas and Coke Utility	9
Vectren Energy Delivery of Indiana, Inc.	9
Natural Gas Forum 2003	9
Natural Gas Simulation Model Under Development	12
Other Gas Issues Affecting Indiana	13
GCA Timeframes—semi-annually, quarterly and monthly	13
NIPSCO's Monthly GCA Mechanism Examined	14
Gas Cost Incentive Mechanism	14
Citizens Implements New Tracker to Benefit Its Customers	14
SIGECO's Demand Side Management Program	15
The Indiana Utility Receipt Tax	15
Pipeline Safety Legislation	16
Competitive Initiatives in Natural Gas	18
National Overview	18
Status of Customer Choice in Indiana	19
NIPSCO's Customer Choice Program	19
Citizens' Alternative Regulatory Plan	19
Appendices	
COMBINED ANALYSIS OF GAS SALES DATA	A
ANALYSIS OF GAS SALES DATA FOR 2000, 2001 & 2002	B
RESIDENTIAL GAS BILLS AS OF JANUARY 1, 2003	C
RESIDENTIAL GAS BILL COMPARISON (2003-1999)	D
HISTORY OF US GAS MARKET DEREGULATION	E

EXECUTIVE SUMMARY

During the 2002-03 heating season, both the price of natural gas and its volatility (large, day-to-day fluctuations in the price of natural gas) hit historic highs. During the late spring and summer of this year, at a time when demand has historically been lower and relatively inexpensive gas has been purchased and injected into storage for use in the coming winter, wholesale gas prices have been nearly double those of just a year ago.

There are strong indications to suggest that we are headed for a repeat of last year's experience, and some experts believe the price of gas will wind up perhaps substantially higher this winter than last. If these predictions are accurate, families who depend on gas to heat their homes may experience significantly higher gas bills than last winter.

Testifying before the House Committee on Energy and Commerce on June 10, 2003, Federal Reserve Board Chairman Alan Greenspan made the following observations regarding the likely continuation of the status of the current gas market:

"In recent months, in response to very tight supplies, prices of natural gas have increased sharply. Working gas in storage is currently at very low levels relative to its seasonal norm because of a colder than average winter and a seeming inability of increased gas well drilling to significantly augment net marketed production. Canada, our major source of imported natural gas, has had little room to expand shipments to the United States, and our limited capacity to import liquefied natural gas (LNG) effectively restricts our access to the world's abundant supplies of gas."

If the current run-up in prices is accompanied by a colder-than-normal winter, some businesses and commercial users may face mandatory curtailments in their supply of natural gas if they have not taken appropriate steps to secure their supply.

As this report is being drafted, the market for natural gas remains abnormally volatile, even in an industry known for its volatility in recent years. It is not certain that the price of natural gas will remain high throughout the summer months, or that it will again increase to new highs during the 2003-04 heating season. But evidence suggests that there is a likelihood that this will occur.

Faced with the prospect of continued volatility and increasing prices, halfway measures may not be sufficient to assure that Hoosiers can make it through the winter without suffering significant economic and personal financial harm.

Minimizing the impact of current unfavorable trends will require the combined efforts of individual families, businesses and schools practicing weatherization, conservation and demand management. Such steps need to be put into place now while there is still time to implement them. Just

dialing down thermostats and putting on an extra sweater can help, but such steps will not be sufficient by themselves.

Indiana's natural gas utilities have indicated that their storage fields will be full for the coming winter, assuring reliable gas supply and greater price stability for Hoosiers. Gas utilities will also be stepping up their efforts to manage gas purchases aggressively to control costs through the use of a portfolio approach which emphasizes diversified purchasing practices and greater attention to non-traditional resources like hedging. The Commission will continue to encourage them to redouble their efforts to assist those in greatest need, and to communicate the urgency of this message to all customers.

Natural Gas Industry Overview

Industry Structure

Local gas distribution companies (LDCs) can be either investor-owned or not-for-profits. Despite their different forms of ownership and corporate structures, investor-owned and not-for-profit utilities share the goal of providing reliable gas service at reasonable cost. Both types of utilities serve as resellers and transporters of gas to their retail customers.

Typically, gas utilities purchase gas supply and transportation rights rather than having any ownership in production or pipeline facilities, i.e. they are not vertically integrated.¹ LDCs buy their gas and transportation rights through contracts. Gas prices are set in the open market while the Federal Energy Regulatory Commission (FERC) regulates the transportation rates for interstate pipelines.

Investor-Owned Utilities

Investor-owned utilities (IOUs) are the largest sellers of natural gas to retail customers in the United States. In Indiana, there are three large IOUs providing gas service, Indiana Gas Company, Inc. (IGC), Northern Indiana Public Service Company (NIPSCO) and Southern Indiana Gas and Electric Company, Inc., (SIGECO), and 16 smaller IOUs.² The three largest IOUs are owned by holding companies; NiSource is the parent of NIPSCO and Vectren owns Indiana Gas and SIGECO. Two of these companies, NIPSCO and SIGECO, are combination utilities that provide electric service as well as gas service.

Not-For-Profit Utilities

Not-for-profits are types of incorporated organizations in which no stockholder or trustee shares in profits or losses and are exempt from corporate income taxes. A newly formed gas utility, Valley Rural Utility Company, is organized as a not-for-profit servicing the needs of a single residential development.

Municipals are organized as not-for-profit local government entities. They pay no federal taxes or dividends, although revenue can be turned over to the general city fund in lieu of taxes if the city elects to do so, and raise capital through the issuance of tax-free bonds. There are 19 municipally owned gas utilities in Indiana, but only two are regulated by the Indiana Utility Regulatory Commission (IURC or Commission). The state's largest municipal gas utility, Citizens Gas and Coke Utility (Citizens), which serves Indianapolis, and Aurora Municipal Utility are the only two regulated by the Commission because municipal utilities may "opt out" of the Commission's jurisdiction in favor of local control over rates.

¹ Vertical integration is a firm's involvement in all stages of the production of goods, from the procurement of raw materials to the sale of finished goods.

² On February 5, 2003, the Commission approved a Settlement Agreement in Cause Nos. 42246 and 42247 that authorized the operational merger of Midwest Natural Gas Corporation and Peoples Gas and Power Company, Inc. along with changes in rates and charges.

Indiana Sales and Transportation of Gas

Gas utilities serve as both merchants, providing bundled sales and transportation service to many of their customers and as transporters, moving gas through their systems for industrial and commercial customers that have purchased gas directly from producers or marketers. Interstate pipeline companies transport gas to the points of delivery (also known as City Gates) where it enters the LDC's system for distribution to its customers.

Table 1 presents sales information for Indiana's four largest LDCs: Citizens, IGC, NIPSCO and SIGECO. Sales figures are based on sales of gas made by LDCs to customers that purchase bundled service, which includes both the provision of gas and its transportation. These four companies collectively represent about 90 percent of the natural gas retail deliveries in the state. For more detailed information, see Appendix A.³

Total Sales (Dth) by Class for the Four Largest Gas Utilities in Indiana – 2002					
Utility	Residential	Commercial	Industrial	Other	Total
Citizens Gas	24,130,546	12,952,562	2,957,543		40,040,651
Indiana Gas	45,041,000	18,630,000	1,432,000		65,103,000
NIPSCO	65,114,972	22,894,258	13,272,819	6,392,301	107,674,350
SIGECO	8,561,003	3,774,739	402,749	4,411	12,742,902
	142,847,521	58,251,559	18,065,111	6,396,712	225,560,903

Source: IURC Company Annual Reports on file with the IURC

The Natural Gas Market

2002-03 Winter Market Conditions

Natural gas supplies meet one-fourth of the United States' energy needs. As a result of the deregulation and commodization of natural gas, market conditions now impact residential, commercial and industrial consumers almost immediately. This past winter again proved this economic reality.

Market indicators for the 2002-03 heating season suggested that gas bills were going to be higher than for the prior heating season because of increasing demand and prices. Anticipating this scenario, all of the major gas utilities conducted public relation campaigns to warn their customers that gas bills would likely increase, perhaps significantly, from a year ago. Customers were told that the return of normal weather and increases in the average price of gas would alone raise gas bills over those of last year.

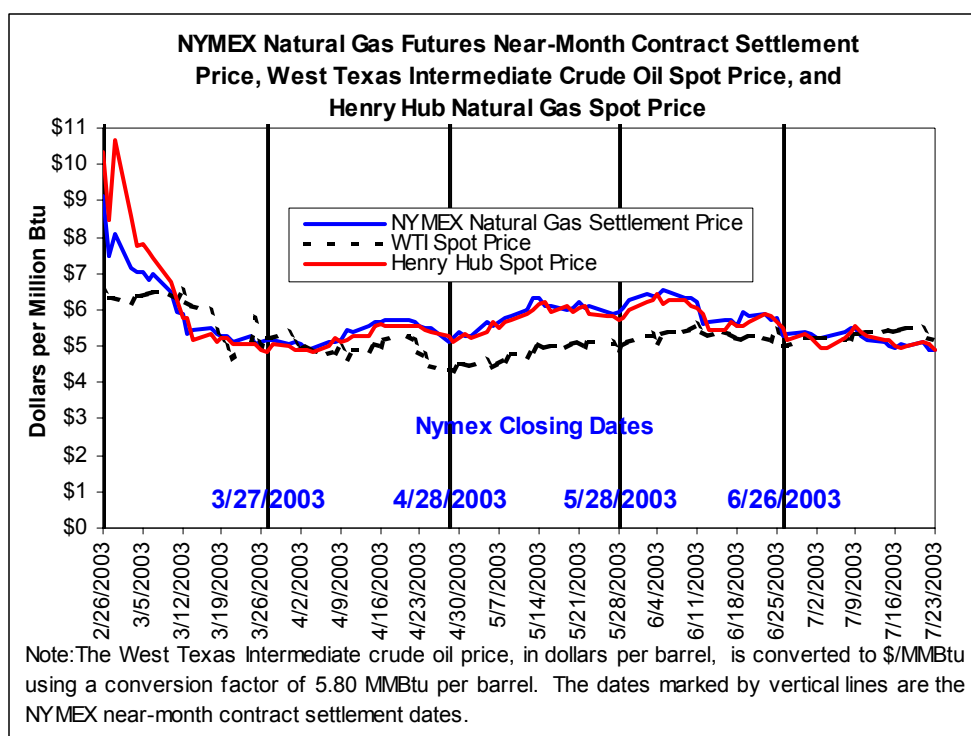
Nearly all the extenuating circumstances that could give rise to even higher gas prices occurred. Temperatures were colder than projected, gas storage inventories were drawn down rapidly and oil prices

³ Retail sales are typically categorized by class of customer, i.e., the residential, commercial and industrial customers. The designation "other" refers to sales to public authorities, i.e., governmental entities.

increased. According to the American Gas Association, the demand for natural gas increased more than 12 percent compared to last winter for residential customers in the Midwest.

The sharp increase in last winter's demand reflected colder-than-normal winter temperatures, a sharp contrast to the unusually warm 2001-02 winter when the country experienced heating degree-days that were almost 13 percent lower than normal. Colder-than-normal weather was most pronounced in the largest gas-using regions of the country: the Northeast, Midwest and Mid-Atlantic states. Natural gas that had been purchased and placed in storage was drawn down at much faster and earlier rates because of heavy demand in the late summer and the severe early winter. Fortunately, natural gas storage was at a 10-year high at the onset of this winter, which diminished, but did not eliminate, the price spike for natural gas.⁴

Another factor that increased demand for natural gas was the threat of reduction in oil supply because of the U.S. action in Iraq. Even though the oil and gas markets are separate, the prices for these two commodities move together because of inter-fuel competition in the industrial and power generation sectors. All of these factors converged to put upward pressure on gas prices, causing them to increase from \$3.50 in the fall of 2002 to over \$9.00 per Mcf in February 2003.



Although sharp increases in residential heating bills were evident in the 2002-03 winter season they were still below the level seen during the 2000-01 winter. During that winter, very low storage

⁴ Energy Information Administration/ Short-Term Energy Outlook—October 2002.

levels at the onset of the season and a cumulative slump in new supply capacity caused an even sharper spike in natural gas prices.

Market Projections for Gas Prices and Demand

A competitive market determines gas prices. The roller coaster of gas prices experienced last winter and over the past few years indicate that gas price fundamentals are strong and expected to last. Market forces have worked well to balance the supply of natural gas with the demand for it. Unfortunately for gas consumers, gas prices can be expected to continue to reflect price volatility over the next few years as gas prices respond to economic incentives and cycles to ensure sufficient and reliable gas supply.

Gas prices during the decade of the 1990s were stable, fluctuating around \$2.00 per Mcf. The price spike of the 2000-01 heating season was the most dramatic run-up in gas prices in history with prices increasing from their historical low of \$2.00 to almost \$10.00 per Mcf. This increase in wholesale prices quickly resulted in a significant increase in gas production that expanded the supply of natural gas for the 2001-02 winter. The resulting increased inventory of natural gas was met with reduced industrial demand because of the prior season's high prices and warmer than normal weather which reduced demand by all customers. Natural gas prices responded to the over supply situation by falling, which reduced not only the price but also the quantity of gas available for the 2002-03 winter as gas rigs shut down in response to falling prices.

Today the market is still nervous about gas prices and supply and this concern is likely to continue over the near-term. The gas industry has recently been operating at the tight end of the gas supply curve. As production nears capacity, the price responses to changes in demand or supply intensify. For example, if production is at its peak and demand increases, prices will increase far more than if idle capacity existed. The tight supply situation, gas price volatility and higher gas prices are expected to persist.

The status of filled underground storage at the beginning of the heating season, and the timing and speed of depletion over the course of the winter factored heavily in the market price of natural gas last year and continues to do so. Last winter, the early and quick depletion of storage gas contributed to the mid-winter price spike and generally higher prices. Prices have remained high over this summer because of concerns about the ability of the industry to replenish depleted storage reserves which had fallen below five-year average levels.

Fortunately, summer temperatures have been moderate. Cooling degree days have been 3 percent less than normal and 12 percent lower than last year. Consequently, gas that would have otherwise been used for electric generation has been readily available to refill storage. The rate of net injections for this refill season has exceeded both the rates for last year and the five year average. For the first time since February 22, 2003, working gas storage levels are back within the five-year range. Spot and future prices have fallen as the outlook continues to improve for reaching targeted storage levels by the beginning of winter.

All Volumes in Bcf	Current Stocks 7/18/03	Estimated Prior 5- Year (1998- 2002) Average	Percent Difference from 5 Year Average	Implied Net Change from Last Week	One- Week Prior Stocks 7/11/03
East Region	1,097	1,263	-13.1%	58	1,039
West Region	300	299	0.3%	6	294
Producing Region	552	672	-17.9%	19	533
Total Lower 48	1,949	2,235	-12.8%	83	1,866

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database. Row and column sums may not equal totals due to independent rounding.

Today, roughly 99 percent of the U.S. gas supply comes from traditional land-based and offshore supply areas in the U.S. and Canada. Despite increases in domestic gas production due to increases in drilling and productivity gains from technology improvements, demand exceeds production. Gas demand is projected to increase at an average annual rate of 1.8 percent between 2001 and 2025 primarily because of rapid growth in the electric generation sector. Gas continues to be the fuel of choice for electric capacity additions. The natural gas share of electricity generation is projected to increase from 17 percent to 29 percent in 2025, including generation by electric utilities, IPPs⁵ and CHP⁶ generators.⁷

The shortfall in supply is the result of a combination of factors. Existing U.S. gas production is declining. Gas rig counts have dropped because the cheapest conventional gas has already been exploited and the remaining options are expensive and very risky. Canadian imports have fallen as their own rates of gas production fall. Exports to Mexico have increased in response to their improved economy. Finally, liquefied natural gas imports are increasing, but only slightly.

It will be necessary to utilize non-traditional sources such as Alaskan gas, deeper off shore gas, and liquefied natural gas to meet future demands. Increasing natural gas supplies will help boost economic development while ensuring more stable prices for natural gas customers.⁸

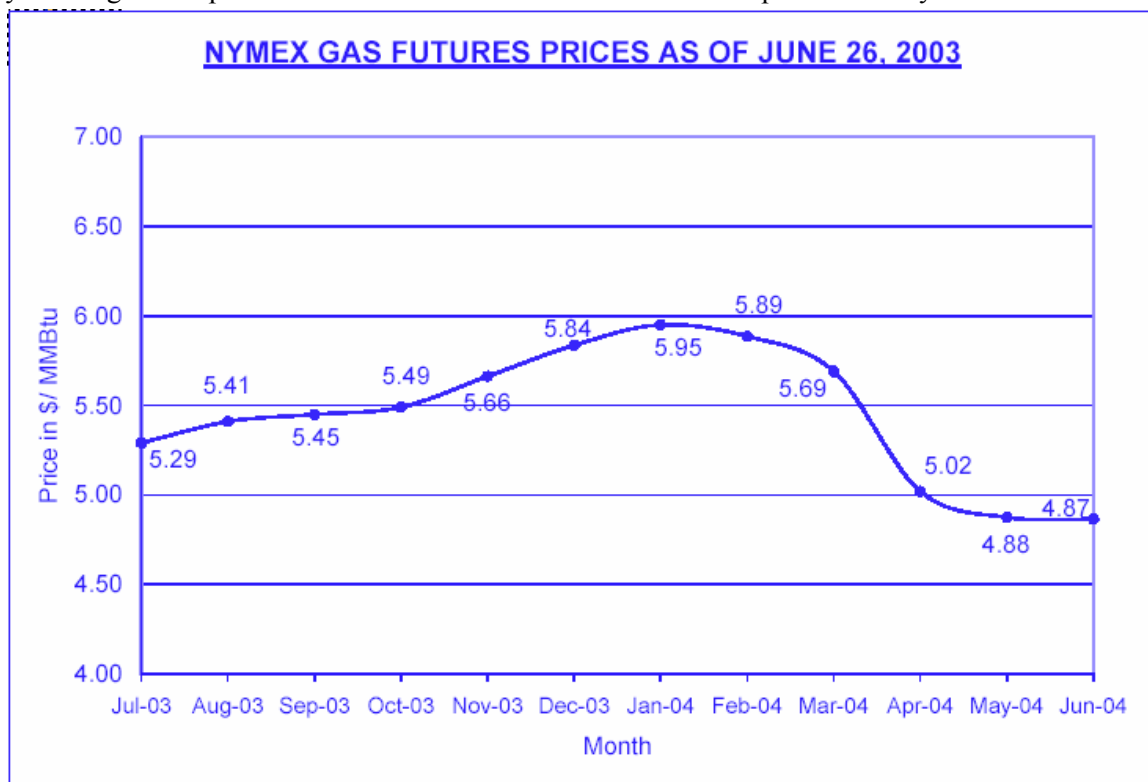
⁵ Independent Power Producers ("IPPs") are entities other than the electric utility in the area that produce electric power. The term is synonymous with "non-utility generation", also known as "NUG".

⁶ Combined Heat and Power ("CHP") means the simultaneous generation of heat and electricity in a single plant. CHP can be used for district heating or industrial processes.

⁷ Energy Information Administration/Annual Energy Outlook 2003, p. 5.

⁸ *Ibid.*

However, without policy changes and infrastructure expansion, the natural gas industry will have difficulty meeting the 50 percent increase in market demand and further price volatility will be inevitable.



Possible Effects of Tight Natural Gas Supplies On Economic Recovery

The events of the last heating season and subsequent high prices and tight supplies could well have implications well beyond the ability of families to afford to heat their homes this coming winter, as serious as those concerns are. The danger is that the short supply may impact the ability of Indiana's economy to recover from the current recession.

The impact is likely to be uneven, but some industries could be hit quite hard this winter. Industries like fertilizer and ammonia makers, which use gas to produce their goods, are already laying off workers. The fertilizer industry has been particularly hard hit, since natural gas accounts for 90 percent of the cost of ammonia, the building block for nitrogen fertilizers. Ammonia manufacturers are not faring any better, with factory closings becoming common.⁹ High natural gas prices may be the most serious threat to the farm supply industry since the energy shocks of the 1970's.¹⁰

Companies which use natural gas for heating and in the production process could face curtailments if supply remains tight and demand increases, whether due to greater consumer demand for gas for home heating, colder-than-normal weather or even the start of an economic recovery. Interestingly, a 1% increase in Gross Domestic Product (GDP) produces a 1.1% increase in the overall

⁹ Simon Romero, "Short Supply of Natural Gas Raises Economic Worries," The New York Times, June 17, 2003.

¹⁰ Robert C. Liuzzi, chief executive of CF Industries, a farm-supply cooperative based in Long Grove, IL.

demand for natural gas, a 1.7% increase in industrial demand, and a 1.8% increase in demand by electric utilities.¹¹ If demand for natural gas increases in the early stages of an economic recovery, given an inability to produce more gas in the short run, resulting higher gas prices could partially choke off or delay the recovery.

Because there are no immediate answers, industry experts believe that natural gas prices will be elevated for years to come. In the short run, we are faced with the prospect of higher utility bills for consumers and higher energy costs for many businesses. In the long run, the shortage will become a matter of exporting jobs to countries with cheaper natural gas.¹²

Commission Actions Addressing Price Volatility, Supply Reliability and Customer Assistance Programs

Routine Commission Review of Gas Prices and Supply

As part of its normal course of business, the Commission monitors gas prices in the Gas Cost Adjustment (GCA) proceedings for all gas utilities under its jurisdiction. The scrutiny given this issue by both the Commission and the Office of the Utility Consumer Counselor (OUCC) has increased dramatically since the increase in gas prices that occurred during the winter of 2000-01. In its orders, the Commission has encouraged utilities to explore innovative ways to control gas prices using strategies such as hedging, fixed and ratable purchases and efficient use of storage.

In response to the Commission's interest in the issue of gas price volatility, many utilities have begun to include testimony on their price mitigation efforts as part of their normal filings in GCA proceedings. Information currently being provided by LDCs includes gas procurement strategies, gas purchasing targets by type of contract, and price projections.

NIPSCO's Depend-a-Bill Program

The Commission approved a fixed gas bill (FGB) proposal by NIPSCO for a three-year trial period.¹³ This program permits residential and commercial customers to fix their monthly gas bills payable to NIPSCO for an annual period regardless of the change in the price of natural gas or the weather's impact on consumption during a twelve-month period.¹⁴ The FGB was marketed to customers as "DependaBill".

¹¹ Sergey Vasnetsov, Lehman Brothers US Major Chemical Team presentation "Natural Gas Fever in the Chemical Industry," June 24, 2003, page 7.

¹² Robert Allison, chief executive of Anadarko Petroleum, in an interview.

¹³ Cause No. 42097, approved July 3, 2002, approved a Fixed Gas Bill (FGB) service offering for NIPSCO. The Company changed the name of the program to Depend-a-bill prior to actual implementation.

¹⁴ This service differs from NIPSCO's Budget Billing Plan because it does not require a "true-up" at the end of the annual period, and from its Price Protection Plan, because bills still vary based on consumption even though a unit price for an annual period has been fixed.

For the initial year of the program, NIPSCO chose a January 1, 2003 starting date and decided to limit enrollment to 1,500 customers. NIPSCO sent marketing materials to all customers who are part of NIPSCO's first two billing cycles¹⁵, which includes roughly 30,000 customers. NIPSCO ultimately approved the enrollment of 1,600 customers in the program. Of those 1,600 customers, twelve have left the program - in all cases because the customers were moving. No one was disconnected for excess usage. One of the conditions of the program is that a customer can be involuntarily dropped from the program if the customer uses 15% more gas than the customer would normally use. Additional usage due to colder weather does not impact the 15% calculation. Given the colder than normal winter and the high gas prices last winter, it's safe to assume that all who enrolled in the program were pleased that they did so.

NIPSCO is about to offer the program to a new group of customers for a program year to run from August 1, 2003 to July 31, 2004. Although the company plans to send solicitations to 200,000 customers, they are not sure what the enrollment cap will be. The Order approving the Depend-a-bill program was based on NIPSCO's representation that there would be a limit of 30,000 customers participating in the program.

NIPSCO's Gas Cost Adjustment

NIPSCO, which has been using a monthly GCA since 1999, experienced high volatility in its gas prices for its March 2003 Commodity filing. The natural gas price spike of late February 2003 peaked during the week when NIPSCO needed to lock in prices for the upcoming month. As a result, NIPSCO's March Commodity filing showed a 28% increase for a typical residential customer's bill, compared to February's bills.

The OUCC determined that this was an unacceptable increase. Additionally, the OUCC observed that as of February 2002, NIPSCO had already increased its gas bills for residential customers by nearly 60%. The proposed March rate hike would increase customer bills to levels more than double comparable bills in 2002. The OUCC also alleged that NIPSCO had not provided reasonable price volatility mitigation to its GCA customers as part of its standard, regulated utility service. The OUCC requested that the Commission block NIPSCO's implementation of the March Commodity factor. The Commission ultimately allowed the factor to be implemented on an interim basis, while the OUCC's objection was litigated. A final decision is pending.¹⁶

LDC Presentations to Commission

In response to the Commission's need for more timely and complete information regarding LDC's strategies for controlling gas price volatility and other relevant information, the largest LDCs have recently made formal presentations to the Commission.

¹⁵ NIPSCO has 21 billing cycles per month that correspond to the 21 workdays of the month. NIPSCO has approximately 600,000 customers, so the first two billing cycles include roughly 30,000 customers. With 1,600 customers signing up for Depend-a-bill, that is an enrollment rate of approximately 5 percent.

¹⁶ NIPSCO, Cause No. 41338, GCA 4.

Citizens Gas and Coke Utility

On May 21, 2003, Citizens addressed the issues of customer service and price volatility mitigation before the Commission. Citizens described its various programs to assist customers with bill payment. In addition, Citizens has initiated a program to "Keep the Heat On" where the Company combines assistance sources and uses payment flexibility so customers can avoid turnoffs and reconnects. The Company continues its customer conservation and weatherization efforts, and plans to weatherize the homes of 60 low-income users this season and collaborate with others to expand the effort.

Like the Commission, Citizens anticipates that gas price volatility will remain a problem for Indiana customers and has implemented a number of measures to reduce the impact of fluctuating prices. Currently, the Company uses a combination of storage assets, fixed-price contracts and ratable purchases to manage gas price fluctuations. Approximately 64% of Citizens' winter sendout for 2002-03 was hedged against price volatility using these measures. Consequently, gas costs were reduced by approximately \$43 million for the Company's customers. Citizens cautioned, however, that price volatility mitigation does not guarantee savings and can result in higher than market prices when gas prices fall.

Vectren Energy Delivery of Indiana, Inc.

On May 29, 2003, SIGECO and Indiana Gas Company gave a presentation to the Commission Staff on gas supply matters. The Companies more fully described their portfolio approach to gas acquisition, which includes advance purchasing of gas supply and the use of company and pipeline gas storage. The Companies also discussed their proposed financial hedging plans, which they expect to implement this year. Together, these measures will fix gas prices for an increasing percentage of the Companies' gas supply to better control gas price volatility while still ensuring it the latitude necessary to take advantage of favorable market conditions. Vectren also cautions that gas price mitigation does not guarantee the lowest prices for gas service.

Vectren shares the concerns of the Commission and Citizens regarding the continuation of tight gas supplies, price volatility and higher overall gas prices. Currently, both IGC and SIGECO project that gas bills for the upcoming winter will be higher than those for the past winter.

Natural Gas Forum 2003

On July 10, 2003, the Commission sponsored a Natural Gas Forum (Forum). The Commission recognized the urgency of the gas price situation for the upcoming winter and the immediate need to address the inevitability of high gas bills. With that aim in mind, the Commission undertook to assess the following: 1) what Indiana utilities have done to secure gas supply and control the price of gas for the upcoming 2003-04 winter heating season, 2) what future actions utilities intend to take to mitigate the effects of higher gas costs and price volatility on customers, and 3) what joint efforts the OUCC, IURC and LDCs can engage in to inform the public about current market conditions for gas and actions customers can take to better control their gas bills. Vectren, Citizens, NIPSCO, Lawrenceburg Gas Company and the State Utility Forecasting Group (SUFG) made presentations and participated in the Forum.

Without exception, all participating LDCs cautioned that the best-case scenario for the coming winter's bills is that they stay at last year's higher levels. It was considered more likely, however, that bills would increase anywhere from 10 to 30 percent over those for last year. Vectren stated that last year's bills for SIGECO customers were 51 percent higher than those for the prior year, and 47 percent higher for Indiana Gas customers. According to Vectren, each \$1.00 increase in the commodity price of gas has approximately a \$100 annual impact on customers.¹⁷ The difference between last year's NYMEX future settlement prices and this year for the month of June is approximately \$2.00/Mcf.¹⁸

The expectation for even higher bills is cause for great concern because of the significant ramifications for Indiana residents and the State's economy. Vectren anticipates a significant effect on low-income customers who already struggle to pay and a widening of the population who experience difficulty paying their bills. For each \$1.00 increase in the commodity cost of gas, Vectren estimates an approximate annual increase of \$350 for commercial customers. Like commercial customers, industrial customers' costs of operations will increase which threatens their growth and expansion opportunities, and the economic recovery of the State.

Fully anticipating no less than a repeat of last winter, LDCs have put last year's experience (and that of the winter of 2000-01) to good use and taken a number of significant steps to secure gas supply at more reasonable prices and mitigate price volatility. For example, all of the participating utilities have changed their gas procurement strategies to reflect increasing levels of known quantities of gas at controlled prices. Rather than relying on the spot market, where gas prices change constantly and can vary radically, LDCs are increasing the amount of gas purchased under either fixed price or hedged contracts. This change in gas procurement strategy increases the reliability of gas supply and secures gas at known prices which decreases the LDCs' exposure to price volatility and levelizes the prices charged to customers.

All utilities cautioned, however, that price volatility mitigation does not guarantee that customers will be charged the lowest prices for gas. If gas prices fall after the execution of a contract for controlling the price and volume of gas, customers may end up paying a premium for more stable prices. The Commission has encouraged utilities to mitigate price volatility using these and other measures, however, recognizing that the resulting cost of gas may end up exceeding future spot market prices.¹⁹ More stable gas prices in a volatile market are desirable and generally considered worth the payment of a slight premium. Conversely, if gas costs continue to go up over the heating season, customers will benefit from lower gas costs locked in earlier and realize savings over the winter heating season. Of course, all utilities must continue to demonstrate that their purchasing strategy was reasonable and prudent given the best information available at the time, and that all alternatives have been considered.²⁰

¹⁷ Presentation by SIGECO and Indiana Gas Company d/b/a Vectren Energy Delivery of Indiana, Inc. before the Indiana Utility Regulatory Commission on July 10, 2003, p. 24.

¹⁸ Presentation by Northern Indiana Public Service Company before the Indiana Regulatory Commission on July 10, 2003, p. 5.

¹⁹ Southern Indiana Gas and Electric Company, Cause No. 37366 GCA 78, approved April 23, 2003.

²⁰ *Ibid.*

Gas held in underground storage has historically served to increase system reliability and reduce winter gas costs. Typically, storage gas is used during the winter when prices are high and replenished in the summer when prices are low. At the Forum, all LDCs reported that their schedules for filling gas storage for the winter are either on target or ahead of last year. The Commission was assured by Forum participants that storage will be full at the beginning of the 2003-04 heating season. Gas industry dynamics have conspired to diminish the price hedge storage historically provided, however. Summer gas rates have increased because of greater demand for gas during the summer by electric generators and the threat of inadequate gas supplies for the coming winter. Even though storage will be full and continue to bestow the benefits of system reliability and control over gas purchasing (LDCs can avoid seasonal high prices by using their storage gas), the significant cost advantage it historically provided has been reduced.

All utilities are engaging in customer education and information campaigns to prepare customers for next winter, minimize shutoffs and expand assistance efforts.²¹ Utilities are warning their customers of the expected seriousness of the gas pricing situation and offering advice on self-help measures to control their gas bills. Actions customers can take include but are not limited to the following: conserve by dialing down the thermostat, weatherize your home and go on the budget payment plan.²² The heavy media coverage of the Forum facilitated the utilities' efforts to get the messages out. Television news shows and newspapers extensively reported on the probability of higher gas bills this winter after the Forum.

Finally, LDC participants outlined their short and long term efforts to assist customers with bill payment. Customers are encouraged to call their local gas utility to discuss payment problems and work out mutually beneficial billing solutions. LDCs will advise customers regarding potential financial assistance.²³ Finally, both Citizens and Vectren will implement programs to weatherize customers' homes. Both companies plan to weatherize 50-60 homes this winter. Although financial assistance provides short term relief to customers having difficulty paying their bills, it is the weatherization programs that will provide the greater long term benefit. Citizens estimates that the payback period for the weatherization of a home is approximately ten years.²⁴

The Commission recognizes that the current supply/demand imbalance is responsible for higher gas prices and largely beyond the control of the Commission, LDCs or customers. Federal deregulation of the natural gas industry has resulted in a dynamic market where both price and supply respond quickly to each other and external conditions (see Appendix C). Unfortunately, the national gas supply picture is

²¹ Utilities are using bill inserts, public meetings, the media and their web sites to impart information on higher winter heating bills to customers.

²² Besides its BudgetPlan, NIPSCO offers the following alternative pricing programs: NIPSCO Choice, a third party supply option; Price Protection Service, fixed and capped supply charges; and Depend-a-Bill, a flat, fixed monthly gas bill. NIPSCO, op. cit., p. 22.

²³ Assistance Programs include LIHEAP (Low Income Home Energy Assistance Program) federal funds, Share the Warmth, CHAFE and low income weatherization.

²⁴ Presentation of Citizens Gas and Coke Utility before the Indiana Utility Regulatory Commission on May 21, 2003.

tight and projected to remain so over the near term. Unless access to currently restricted gas reserves is permitted, the usage of coal is increased along with new technologies, the nuclear industry is revived and research for renewable energy is expanded, demand will continue to exceed supply and prices will remain high and volatile.

Even so, it is still incumbent on this Commission, the State's LDCs and customers to do what they can to alleviate and control the situation. By adopting the measures and strategies explored at the Forum, it is the hope of the Commission that the strain on the budgets of Indiana's citizens and industries that use gas can be minimized and made manageable.

Natural Gas Simulation Model Under Development

The demand imposed on the gas supply system by the proliferation of electric merchant plants in the Midwestern region and the price volatility of natural gas during the winter of 2000-01 signified the need for better information about the nature of the gas system in Indiana. In mid-2001, the Commission decided to develop a computer model to aid in the analysis of Indiana's gas systems. SUFG, which already had a computer model for doing similar analysis of the State's electric systems, began working with the staffs of the Commission and Indiana's Department of Commerce to develop the model. The first phase development of the computer model to aid in the analysis of the Indiana gas system is now complete. The technical report on the model has been given to the Commission staff, the Indiana Department of Commerce and the four major gas utilities (Citizens, NIPSCO, IGC, and SIGECO).

The current model constructed by SUFG is an optimization model covering the five years running from 2003 to 2007. This optimization model has an objective to find the least cost way of meeting the monthly gas demand in Indiana and the 18-state region modeled for the next five years while respecting the system physical capacities. The neighboring states and other states downstream were included in the model in recognition of the fact that the Indiana natural gas system is greatly influenced by the activity in these states. The electricity driven gas demand scenarios inside Indiana are produced using the SUFG merchant database.

As currently constructed, the model is designed to capture potential bottlenecks in the interstate pipeline system supplying Indiana and the storage facilities located inside Indiana. By running experiments with different merchant plant and demand scenarios, the model can then be used to investigate the effect of the placement of merchant plants and other demand changes on this supply side infrastructure. The experiments carried out on the model so far show that Indiana is affected more by demand changes in the downstream states than commensurate demand changes inside Indiana. This is a result of the unique location of Indiana on major gas transportation corridors from the supply basins to the Northeast.

Other Gas Issues Affecting Indiana

GCA Timeframes--semi-annually, quarterly and monthly

The majority (17 out of 18) of Indiana's smallest LDCs continue to file traditional quarterly GCA petitions. Only two companies, Kokomo Gas and Fuel Company and Northern Indiana Fuel & Light Company, continue to implement gas cost adjustments on a semi-annual basis.

Currently, one LDC, NIPSCO, uses a monthly GCA factor with an annual hearing to discuss important issues pertaining to the previous and upcoming years, to true-up any under- or over-estimated costs, and to present known demand costs for the upcoming year. NIPSCO's GCA mechanism, approved under the Alternative Utility Regulation statute²⁵, allows monthly flexing up or down based on prevailing market conditions.²⁶ In addition to the annual hearing requirements, NIPSCO is required to file monthly informational filings with the Commission showing commodity prices and GCA factors to be implemented for the upcoming month, and quarterly earnings information. Indiana's newest LDC, Valley Rural Utility Company, which serves the Hidden Valley Lakes residential development in Dearborn County, will also file monthly GCAs with an annual hearing, once it begins serving customers.²⁷ The monthly GCA was filed under the ARP statute and a settlement with the OUCC includes a cap on monthly prices.

Three of Indiana's major LDCs continue to file quarterly GCAs, but are allowed to adjust their approved GCAs monthly. IGC and SIGECO, both subsidiaries of Vectren, are allowed to "flex," or adjust, their GCA factors down from Commission approved maximum factors, or caps, once a month in an effort to more closely reflect current gas prices. These flex-down mechanisms are approved on a cause-by-cause basis. Additionally, Citizens petitioned to file quarterly with monthly adjustments to its GCA factors on July 26, 2002.²⁸ Citizens may flex its monthly GCA factor up or down, with a \$1.00 per Dth maximum flex. The mechanism was approved for a test period of one-year and will be re-evaluated at that time. With the approval of this change for Citizens, the majority of gas bills rendered in Indiana reflect GCA factors that change monthly.

Valley Rural Utility Company, a not-for-profit, will recover its incremental gas costs over base rates on a monthly basis as approved in its Alternative Regulatory Plan. Recoverable costs are subject to a cap, and will be subject to review in an annual gas supply proceeding that addresses the components of gas supply for the upcoming year and seeks final approval of the gas supply costs charged during the preceding twelve months. The Company recently began providing service to customers.²⁹

²⁵ Indiana Code § 8-1-2.5 Alternative Utility Regulation

²⁶ Cause No. 41338 ARP, NIPSCO; Approved 12/1/1998.

²⁷ Cause No. 42115; Approved 5/8/2002.

²⁸ Cause No. 37399 GCA 75, Citizens Gas & Coke Utility, approved September 4, 2002.

²⁹ Valley Rural Utility Company (VRUC) is a new gas utility formed to provide gas service to the Hidden Valley Lake residential development in Dearborn County. VRUC already provides water and sewer utility service to about the same area. As of July 8, 2003, the VRUC had received 346 applications for gas service, approved 339 and set 39 meters.

NIPSCO's Monthly GCA Mechanism Examined

The increased volatility in the natural gas market, which translated into wide swings on NIPSCO customers' bills in late winter 2003, prompted a more thorough, detailed examination of NIPSCO's monthly GCA mechanism. NIPSCO's heavy reliance on storage gas as a hedge and the method of accounting for stored gas costs proved to be highly contentious issues for all parties involved in NIPSCO's annual GCA hearing. A decision from the Commission is pending.³⁰

Gas Cost Incentive Mechanisms

A Gas Cost Incentive Mechanism ("GCIM") provides risks and rewards to LDCs for gas supply acquisition performance compared to a market standard ("benchmark"). Benchmark prices reflect natural gas commodity prices for geographic locations representative of the supply source where the gas was purchased, and are usually calculated monthly. The benchmark price is then divided by the actual amount of gas purchased to determine the benchmark dollars. If an LDC's actual natural gas commodity purchases are above or below the benchmark dollars, predetermined percentages of the positive or negative differentials are shared among the utility and its customers. For example, if the actual gas purchases are slightly below the Benchmark dollars, a higher percentage of the savings goes to the customers; however, if the actual gas purchases are a greater percentage below the benchmark dollars, a higher percentage of the savings differential is shifted to the LDC. This works similarly on the other side of the benchmark level. The customers absorb costs that are only slightly higher than the benchmark; however, if costs exceed the Benchmark by a greater amount, a higher percentage of the differential is shifted to the LDC.

NIPSCO has had a GCIM in place since 1997, which was approved as part of its ARP.³¹ Three other LDCs, IGC, SIGECO and Citizens have implemented GCIMs as part of an ARP approved on July 24, 2002.³² Currently, the majority of gas consumed in Indiana is purchased under a GCIM.

Citizens Implements New Tracker To Benefit Its Customers

As part of a Settlement Agreement filed with the Commission in August 2002, Citizens has implemented a Customer Benefit Tracker ("CBT"). The CBT is based upon the net funds available from Citizen's unregulated businesses and affiliates or subsidiaries. Under the CBT, Citizens adds to the available pool of funds from the Manufacturing Division and Oil Division funds from its unregulated businesses and affiliates or subsidiaries that the Citizens Board of Directors periodically determines are not otherwise needed to service debt, pursue new business initiatives or to satisfy other internal financial requirements. Citizens will file for a new CBT annually to be approved through the 30-day filing process. The requested CBT will be adjusted each year by certain recoverable accounting costs.³³

³⁰ Cause No. 41338 GCA 4.

³¹ Cause No. 40342, Northern Indiana Public Service Company, approved on October 8, 1997.

³² Cause No. 42233 ARP which has been consolidated with Cause Nos. 37394 GCA 50-S1 and 37399 GCA 50-S1.

³³ Cause No. 41605; Approved 12/11/2002.

SIGECO's Demand Side Management Program

On April 15, 2003, SIGECO filed a petition to approve a proposed Demand Side Management ("DSM") program. Generally, DSM programs are attempts to meet load growth using other methods such as conservation and load management rather than by increasing reliance on gas commodity. The program is the result of a cooperative process between the Company, the OUCC and the Citizens Action Coalition of Indiana whom will each appoint a representative to an advisory board and act through unanimous decision-making.

The DSM administrator will be provided with \$3 million per year (\$2.5 million for electric and \$1.5 million for gas) over the next three years and recover those expenditures through a tracking mechanism over the next ten years. The electric and gas costs will be recovered in separate tracking mechanisms. Customers who make qualified efficiency investments (which may include high seer air conditioning, installation of photovoltaics or fuel cells, installation of insulation) will be provided with rebates as an incentive, the cost of which will not be recovered in rates. Additionally, SIGECO will spend \$100,000 in each of three years to educate customers regarding the DSM program, usage behavior, the rebate program and the higher cost of service during peak periods. The funds will not be recouped through the DSM trackers.

To assure unbiased evaluation of DSM programs and provide a foundation for the potential implementation of a multi-utility coordinated approach to DSM in Indiana, the DSM program will be designed and implemented by a Third Party Administrator funded through utility rates. After one year, the advisory board may decide to increase the funding to the DSM Administrator and will seek Commission approval to do so. A final decision is pending.³⁴

The Indiana Utility Receipts Tax

The Indiana Utility Receipts Tax was enacted by the Indiana General Assembly during the 2002 session, and became effective January 1, 2003. Prior to the creation of the Indiana Utility Receipts Tax, most Indiana gas utilities were required to pay a gross receipts tax in the amount of 1.2%. Boonville Natural Gas Corporation, Chandler Natural Gas Corporation, Fountaintown Gas Company, Indiana Utilities Corporation and South Eastern Indiana Natural Gas Company had made previous elections to be taxed as so-called "Special S" corporations and filed form IT 20 SC. As a result of that election, the five gas companies mentioned were not subject to the gross receipts tax and their current rates and charges do not reflect the recovery of the gross receipts tax as a revenue requirement.

The Indiana Utility Receipts Tax imposes a 1.4% levy against all gross receipts as defined in Indiana Code § 6-2.3. For the S corporations that have previously been exempt from the gross receipts tax, the entire 1.4% of the Indiana Utility Receipts Tax is a new and additional tax liability that is not currently reflected in their rates and charges. For other utilities that had previously been subject to the gross receipts tax, the Indiana Utility Receipts Tax increases their existing tax liability by 0.2%, the difference between the old and new tax rates. In an attempt to avoid any risk of financial injury, these five

³⁴ Cause No. 42418, Southern Indiana Gas and Electric Company, filed April 15, 2003.

utilities have petitioned the Commission, Cause No. 42377, 42378, 42379, 42380, and 42381 filed February 7, 2003, to reflect in the rates and charges the new Indiana Utility Receipts Tax.

The Indiana Tax Court has ordered the State of Indiana to modify the method used to assess property taxes. It is likely that the reassessment will create a decrease in property taxes that will lead to these utilities coming back to the Commission to reflect this decrease in rates for ratepayers.

Pipeline Safety Legislation

President Bush signed the Pipeline Safety Improvement Act of 2002 (the "Act") on December 17, 2002. Several provisions included in the Act have impacted and will continue to impact the State of Indiana. With improved public safety as the intended outcome, additional efforts will be committed by both pipeline operators and the IURC to ensure compliance with the law.

First, the law mandates that all operators of natural gas transmission lines have an integrity management program in place for high consequence areas by December 2004.³⁵ Indiana's intrastate gas companies operate 1886 miles of transmission pipeline. Not all of these pipelines are located in high consequence areas, as that term is defined in the proposed rule. The impact of a gas pipeline rupture varies based on its size, operating pressure and proximity to people. The rule will require operators to use these factors, along with other factors, including the calculation of heat-impacted zones, to identify high consequence areas.

For pipelines located in high consequence areas, baseline integrity assessments (determining the current physical condition of pipelines) must begin in June 2004 and be completed December 2008 or 2013, depending on the facility's location, pressure and diameter. Assessments may be made utilizing in-line (internal) inspections ("pigging"), hydrostatic pressure testing, or direct assessment³⁶. It is anticipated that gas transmission operators will dedicate significant resources in order to comply with the regulations. Costs will be incurred for identifying pipeline segments in high consequence areas, setting up a framework for the company's program, conducting a baseline assessment of affected pipelines, conducting periodic assessment and evaluation, evaluating automatic shutoff and remotely controlled valves, data integration and remedial action. The cost to gas utilities will be dependent partially upon the baseline assessment timeframe, the extent to which Indiana's facilities are piggable and other factors.

Indiana's gas utilities and, in turn, its customers will also be affected by the manner in which interstate gas transmission operators conduct their integrity management programs. Unless adequate time is allowed and the assessment process is carefully managed, flow restrictions can significantly impact gas supply and cost to customers. There exists the potential for critical supply interruptions, as well.

³⁵The US Department of Transportation's Office of Pipeline Safety issued a proposed integrity management rule on January 28, 2003, and a final rule is expected soon.

³⁶ Direct Assessment is a method that utilizes a process to evaluate certain threats (i.e., external corrosion, internal corrosion and stress corrosion cracking) to a pipeline's integrity. It includes data gathering, indirect and direct examination of the pipeline, and post assessment evaluation.

The enforcement of the Integrity Management rule will require additional training for Indiana's Pipeline Safety Division. The Transportation Safety Institute, which is the training agency within the US DOT, is developing a series of five courses, which inspectors are to complete before conducting Integrity Management inspections. It is likely that federal protocols will be developed for use in the inspection process. Although Indiana's intrastate transmission facilities do not represent the bulk of jurisdictional piping for the Pipeline Safety Division, the nature of the inspections will require the Division to dedicate considerable resources to integrity management enforcement.

The Pipeline Safety Act also addresses one-call notification programs. Among other things, it requires operators to review and revise existing public education programs. Upon completion of such revisions, operators must submit the programs to the IURC for review. This process must be completed within 12 months of the enactment of the federal law. A National Standard (API Standard RP 1162) is being developed to address this topic and may be adopted in a future rulemaking.

The Act also requires the Secretary of Transportation to encourage the adoption of practices set forth in the best practices report entitled "Common Ground."³⁷ Indiana's Pipeline Safety Division will take an active role in following through with the requirements of these provisions. It will work with state and federal liaisons and the Board, staff and members of the Indiana Underground Plant Protection Services to encourage the adoption of best practices and involvement in the Common Ground Alliance. The Division intends to do everything in its power to develop and strengthen Indiana's Underground protection program, as third-party damage continues to be the leading cause of pipeline accidents, both statewide and nationwide.

The Act also includes additional requirements for Indiana's gas operators. It requires all operators to develop and complete qualification of pipeline personnel programs; and requires regulators to conduct reviews and verifications of such programs within three years of the date of the Act. It also requires natural gas transmission operators to provide data appropriate for use in the National Mapping System and to update this information as necessary. Finally, it requires the Secretary of Transportation to work with the FCC, facility operators, excavators and one-call notification systems for the establishment of a nationwide toll-free 3-digit telephone number system to be used by state one-call programs.

³⁷ The Common Ground study was developed in response to a directive from Congress to the US DOT. The directive required the development of best practices for preventing damage to underground facilities and assuring their safe operation. The result was the comprehensive Common Ground study and the subsequent establishment of the Common Ground Alliance – a non-for profit organization that fosters communication and the adoption of best practices.

Competitive Initiatives in Natural Gas

National Overview

Since the implementation of the Natural Gas Policy Act of 1978, Congress began a process that ended federal control over the price of gas at the wellhead. This process also set in motion a series of public policy changes by the Federal Energy Regulatory Commission and state regulators that has culminated in “customer choice” programs in the natural gas industry.

Natural gas choice is similar to choosing a long distance telephone company. The local utility continues to own and maintain the pipes that deliver the gas service to consumers’ homes or businesses, but consumers can choose the company that provides their natural gas. In today’s competitive market, suppliers can offer a variety of prices, incentives or services to gain business. Therefore, customers have the opportunity to comparison shop for the best deal, just like they do when they buy a car, home, or their weekly groceries. Since 1995 several states have enacted legislation or rules that allow residential customers and small commercial customers to purchase gas from someone other than the local gas company.

Currently, choice programs are operating in nineteen states and the District of Columbia. About 3.9 million residential customers, or 18 percent, participate in choice programs. Participation rates vary dramatically across programs, ranging from those that attract few customers to participation rates of 30-50 percent. Some states have expanded their programs to include more eligible customers while others have died, strived to survive or simply reached a plateau.

Nationally, there has been a decline in the number of marketers over the past few years. The increase in gas prices in the winter of 2000-01, the financial problems of energy trading companies, and the increased difficulty of marketers to make a profit all contributed to the reduced number of marketers. The gas business is a low profit-margin one where marketers are selling a commodity to a mass market. Marketers must purchase gas and transportation in the same markets as LDCs. Some marketers have discovered that customer service and marketing costs cut too deeply into their profits.³⁸

Choice programs continue to evolve over time as circumstances change. These programs still provide a challenge to LDCs, marketers and regulators as they change in size and scope in response to market realities over which no one has control. The learning process and reconfiguring of choice programs can be expected to continue.

³⁸ The National Regulatory Research Institute, *Survey on the Features and Regulatory Oversight of Gas Choice Programs*, NRRI 03-02, February 2003, pp. 1-2.

Status of Customer Choice in Indiana

NIPSCO's Customer Choice Program

The Commission approved NIPSCO's "Choice" program in its Order of October 8, 1997, in Cause No. 40342. The utility began phasing in its customer choice program in April 1998. The eligibility numbers increased from 50,000 residential and 1,500 business customers to include the entire customer base of 604,000 and 52,000, respectively. The Choice program's enrollment caps are 150,000 residential customers and 20,000 commercial customers. NIPSCO estimates that all of its customers will have access to unbundled service by January 1, 2005.

The company reports that participation dropped substantially over the 2000-02 time period, with more than 12,000 residential customers enrolled in July 2000, but only 4,766 residential customers in September 2002 after the only active supplier stopped its customer enrollment activities. Nationally during this time, the growth rate for residential customers that had access to choice programs was slowed due to the saturation of prime markets, waning marketer interest and volatility in the natural gas and electricity markets. NIPSCO made a concerted effort to revitalize the program in late 2002 that led to three new suppliers entering the program. As of April 2003, almost 51,000 customers were enrolled and five suppliers were participating, although two of the marketers were not accepting any new residential customers.

NIPSCO CHOICE PROGRAM

Table 6: Status Customer Choice as of April 2003

Customer Type	Total Customers 2002	Enrollment Caps for ARP		Participating		
		Total	Percentage of 2002 Total	Total	Percentage of Eligible Customers	Percentage of Total Customers
Residential	604,000	150,000	24.8	45,349	30.23	7.51
Business	52,000	20,000	38.5	5,592	27.96	10.75
Total	656,000	170,000	25.9	50,941	29.97	7.77

Citizens' Alternative Regulatory Plan

Effective June 1, 2003, the Commission approved an Alternative Regulatory Plan (ARP) for Citizens. The utility cited an increasingly competitive energy environment in which market forces have replaced traditional regulation as the primary reason for the change. Implementation of its unbundled tariff will prospectively result in all customers being able to choose their gas supplier, with Citizens remaining one of the supplier choices. Key elements of Citizen's proposal include: 1) the phasing in of new unbundled services, 2) affiliate guidelines that serve as ethical codes of conduct between the utility and other third-party suppliers, 3) Citizens acting as the supplier of last resort, 4) new service offerings

for third-party suppliers, 5) no increase in its current rates, and 6) immediate service changes for large commercial and industrial users using over 50,000 Dth annually in the first year. Currently, Citizens ARP is not available to residential customers.

Appendix A

COMBINED ANALYSIS OF GAS SALES DATA

Citizens Gas, Indiana Gas, NIPSCO, and SIGECO			
	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Total Sales By Class (1,000 Dth)</u>			
Residential	142,848	132,159	147,085
Commercial	58,252	53,828	60,522
Industrial	18,065	18,993	30,198
Other	6,396	9,861	25,419
Total	225,561	214,842	263,224
<u>Total Transportation By Class (1,000 Dth)</u>			
Residential	1,476	1,238	1,583
Commercial	17,894	11,084	12,034
Industrial	206,996	202,316	238,952
Other	6,043	4,880	4,932
Total	232,409	219,518	257,501
<u>Total Throughput By Class (1,000 Dth)</u>			
Residential	144,324	133,397	148,668
Commercial	76,146	64,912	72,557
Industrial	225,061	221,309	269,149
Other	12,440	14,741	30,352
Total	457,970	434,360	520,726
<u>Percent Transportation to Throughput</u>			
Residential	1.02%	0.93%	1.06%
Commercial	23.50%	17.08%	16.59%
Industrial	91.97%	91.42%	88.78%
Other	48.58%	33.10%	16.25%
Total	50.75%	50.54%	49.45%

Appendix B

ANALYSIS OF GAS SALES DATA FOR 2000, 2001 & 2002

CITIZENS GAS AND COKE UTILITY

	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Revenues By Customer Class</u>			
Residential \$	176,765,066	\$ 213,914,885	\$ 161,261,660
Commercial & Industrial	91,663,893	118,341,083	109,578,368
Other	3,439,265	(16,664,765)	25,905,386
Totals \$	271,868,224	\$ 315,591,203	\$ 296,745,414
<u>Sales By Customer Class in Dth</u>			
Residential	24,130,546	22,216,277	25,385,884
Commercial & Industrial	15,910,105	14,609,790	23,289,509
Other	-	-	-
Totals	40,040,651	36,826,067	48,675,393
<u>Revenues Per Dth</u>			
Residential \$	7.3254	\$ 9.6287	\$ 6.3524
Commercial & Industrial \$	5.7614	\$ 8.1001	\$ 4.7051
Other \$	-	\$ -	\$ -
Average Rate \$	6.7898	\$ 8.5698	\$ 6.0964

INDIANA GAS COMPANY, INC.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Revenues By Customer Class</u>			
Residential \$	350,567,161	\$ 408,937,121	\$ 341,536,963
Commercial & Industrial	138,229,744	173,352,672	142,546,514
Other	17,165,239	(30,886,857)	32,810,251
Totals \$	505,962,144	\$ 551,402,936	\$ 516,893,728
<u>Sales By Customer Class in Dth</u>			
Residential	45,041,000	41,719,000	46,504,000
Commercial & Industrial	20,062,000	21,649,000	27,087,000
Other	-	-	-
Totals	65,103,000	63,368,000	73,591,000

Revenues Per Dth

Residential	\$ 7.7833	\$ 9.8022	\$ 7.3442
Commercial & Industrial	\$ 6.8901	\$ 8.0074	\$ 5.2625
Other	\$ -	\$ -	\$ -
Average Rate	\$ 7.7717	\$ 8.7016	\$ 7.0239

NORTHERN INDIANA PUBLIC SERVICE CO.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Revenues By Customer Class</u>			
Residential	\$ 469,273,275	\$ 577,297,238	\$ 446,043,965
Commercial & Industrial	224,251,029	287,919,725	203,967,233
Other	18,436,829	45,321,200	92,964,935
Totals	\$ 711,961,133	\$ 910,538,163	\$ 742,976,133

Sales By Customer Class in Dth

Residential	65,114,972	59,653,000	66,450,000
Commercial & Industrial	36,167,077	32,349,000	35,996,000
Other	6,392,301	10,466,000	24,786,000
Totals	107,674,350	102,468,000	127,232,000

Revenues Per Dth

Residential	\$ 7.2068	\$ 9.6776	\$ 6.7125
Commercial & Industrial	\$ 6.2004	\$ 8.9004	\$ 5.6664
Other	\$ 2.8842	\$ 4.3303	\$ 3.7507
Average Rate	\$ 6.6122	\$ 8.8861	\$ 5.8395

SOUTHERN INDIANA GAS & ELECTRIC CO.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Revenues By Customer Class</u>			
Residential	\$ 64,421,116	\$ 69,772,477	\$ 57,560,161
Commercial & Industrial	28,147,654	31,898,035	24,162,167
Other	65,470	102,060	119,908
Totals	\$ 92,634,240	\$ 101,772,572	\$ 81,842,236

Sales By Customer Class in Dth

Residential	8,561,003	8,570,921	8,745,355
Commercial & Industrial	3,774,739	4,213,115	4,347,473
Other	407,160	(604,580)	633,180
Totals	12,742,902	12,179,456	13,726,008

Revenues Per Dth

Residential	\$ 7.5249	\$ 8.1406	\$ 6.5818
Commercial & Industrial	\$ 7.4568	\$ 7.5711	\$ 5.5577
Other	\$ 0.1608	\$ (0.1688)	\$ 0.1894
Average Rate	\$ 7.2695	\$ 8.3561	\$ 5.9626

Appendix C

RESIDENTIAL GAS BILLS AS OF JANUARY 1, 2003 RANKED HIGHEST TO LOWEST AT 200 THERMS IURC GAS DIVISION				
Rank	Utility Name	150 Therms	200 Therms	250 Therms
1	Northern Indiana Public Service Co.	\$135.90	\$179.35	\$222.81
2	Boonville Natural Gas Corporation	\$132.43	\$172.63	\$212.84
3	Westfield Gas Corporation	\$131.15	\$167.15	\$203.15
4	Ohio Valley Gas Corp. (ANR) * (2)	\$126.96	\$164.94	\$202.93
5	Indiana Gas Company	\$124.03	\$161.32	\$198.61
6	Lawrenceburg Gas Co. (Rate G-1) *	\$122.40	\$156.64	\$190.89
7	Indiana Natural Gas Corporation	\$115.02	\$151.36	\$187.70
8	Indiana Utilities Corporation	\$116.01	\$150.89	\$185.77
9	Chandler Natural Gas Corporation	\$113.29	\$148.57	\$183.86
10	Aurora Municipal Gas	\$111.48	\$147.77	\$184.05
11	South Eastern Indiana Gas Co.	\$113.08	\$147.09	\$181.10
12	Citizens Gas & Coke Utility	\$113.01	\$146.66	\$180.32
13	Southern Indiana Gas and Ele. Co.	\$112.32	\$146.42	\$180.53
14	Community Natural Gas - Rate 1 *	\$113.15	\$145.77	\$178.39
15	Fountaintown Gas Company, Inc.	\$111.04	\$144.86	\$178.69
16	Ohio Valley Gas Corp. (TXG) *	\$111.61	\$144.48	\$177.35
17	Switzerland County Natural Gas	\$110.28	\$144.31	\$178.33
18	Northern Ind Fuel & Light Co., Inc.	\$109.67	\$141.90	\$174.13
19	Lawrenceburg Gas Co. (Rate G-2) *	\$107.42	\$138.18	\$168.94
20	Ohio Valley Gas, Inc. *	\$106.54	\$137.72	\$168.90
21	Kokomo Gas and Fuel Company	\$102.83	\$131.60	\$160.39
22	Midwest Natural Gas Corp. * (1)	\$96.98	\$125.25	\$153.50
23	Community Natural Gas - Rate 2 *	\$96.32	\$123.33	\$150.35
24	Peoples Gas & Power Co.	\$94.80	\$121.94	\$149.07
25	Snow & Ogden Gas Company, Inc.	\$75.20	\$100.20	\$125.20

*See Page 45 for Service Area Descriptions

(1) See Note 1 on Page 45

(2) See Note 2 on Page 45

For Purposes of this Comparison: 100 Therms = 100 Ccf = 10 Dth = 10 Mcf

Appendix D

**RESIDENTIAL GAS BILL
COMPARISION (2003-1999)
BILLS CALCULATED BASED ON RATES IN EFFECT
JANUARY FIRST OF EACH YEAR
RANKED HIGHEST TO LOWEST BASED ON 5
YEAR AVERAGE
IURC GAS DIVISION**

		Consumption Level of 200 Therms					
Rank	Utility Name	5 Year Average	2003 Bills	2002 Bills	2001 Bills	2000 Bills	1999 Bills
1	Westfield Gas Corp.	\$163.41	\$167.15	\$213.05	\$185.36	\$123.92	\$127.55
2	Boonville Natural Gas Corp.	\$154.64	\$172.63	\$205.70	\$179.66	\$109.67	\$105.55
3	Lawrenceburg Gas Co. (Rate G-1) *	\$154.19	\$156.64	\$197.22	\$164.24	\$124.22	\$128.61
4	Ohio Valley Gas Corp. (ANR) * (2)	\$151.99	\$164.94	\$180.37	\$168.81	\$120.33	\$125.49
5	Indiana Utilities Corp.	\$149.14	\$150.89	\$189.05	\$158.65	\$125.97	\$121.13
6	Northern Indiana Public Service Co.	\$148.63	\$179.35	\$127.81	\$210.91	\$114.53	\$110.55
7	Indiana Natural Gas Corp.	\$146.78	\$151.36	\$178.29	\$154.18	\$122.08	\$128.00
8	Lawrenceburg Gas Co. (Rate G-2) *	\$145.19	\$138.18	\$179.40	\$166.26	\$121.43	\$120.68
9	Aurora Municipal Gas Utility	\$145.10	\$147.77	\$184.96	\$156.95	\$117.06	\$118.77
10	Switzerland County Natural Gas Co.	\$144.71	\$144.31	\$199.79	\$150.85	\$122.19	\$106.42
11	Community Gas Corp. (Rate 1) *	\$143.62	\$145.77	\$205.47	\$141.26	\$114.31	\$111.28
12	South Eastern Indiana Gas Co.	\$143.59	\$147.09	\$172.41	\$162.41	\$120.71	\$115.33
13	Fountaintown Gas Co.	\$139.52	\$144.86	\$180.32	\$139.60	\$118.76	\$114.05
14	Indiana Gas Co.	\$138.40	\$161.32	\$133.22	\$175.40	\$114.46	\$107.62
15	Northern Indiana Fuel and Light Co.	\$137.54	\$141.90	\$192.85	\$130.65	\$105.41	\$116.91
16	Ohio Valley Gas Corp. (TXG) *	\$136.75	\$144.48	\$168.15	\$157.27	\$98.75	\$115.11
17	Chandler Natural Gas Corp.	\$136.32	\$148.57	\$179.36	\$153.39	\$108.35	\$91.92
18	Peoples Gas and Power Co.	\$134.67	\$121.94	\$162.00	\$154.34	\$112.61	\$122.48
19	Midwest Gas Corp. * (1)	\$133.21	\$125.25	\$155.57	\$151.34	\$112.11	\$121.78
20	Ohio Vally Gas Inc. *	\$132.48	\$137.72	\$172.89	\$148.97	\$94.09	\$108.71
21	Community Gas Corp. (Rate 2) *	\$131.57	\$123.33	\$173.82	\$150.16	\$105.56	\$104.97
22	Citizens Gas and Coke Utility	\$129.78	\$146.66	\$125.92	\$157.44	\$108.58	\$110.30
23	Kokomo Gas and Fuel Co.	\$122.41	\$131.60	\$154.01	\$113.27	\$96.00	\$117.18
24	Southern Ind. Gas & Ele. Co.	\$116.82	\$146.42	\$108.80	\$134.82	\$92.94	\$101.12
25	Snow and Ogden Gas Co.	\$100.20	\$100.20	\$100.20	\$100.20	\$100.20	\$100.20

*See Page 45 for Service Area Descriptions

(1) See Note 1 on Page 45

(2) See Note 2 on Page 45

For Purposes of this Comparison: 100 Therms =

100 Ccf = 10 Dth = 10 Mcf

HISTORY OF US GAS MARKET DEREGULATION

1938 The National Gas Act (NGA)

The NGA created the Federal Power Commission (FPC) to regulate natural gas pipelines (but not wellhead prices). Rapid growth in the 1940s and 1950s outpaced pipeline expansion, which led to price volatility and supply shortages in some areas. Producers requested price caps, but the FPC said it did not believe it had the authority to set them.

1954 The Supreme Court determined the NGA should encompass the regulation of both pipelines and wellhead prices. This was known as the **Phillip's Decision**, and the court held that the primary aim of the NGA was the "protection of consumers against exploitation at the hands of natural gas companies."

This created an industry structure that consisted of price-regulated gas producers, who sold to price-regulated pipelines, who in turn sold gas on to local distribution companies (LDCs). LDCs then sold the gas onto end users (LDCs were regulated by state or local government agencies).

Price volatility was reduced by the Phillip's Decision, but it eventually caused supply shortages - it encouraged consumers to buy relatively cheap fuel but did not provide any incentive to producers to replace reserves.

1978 Natural Gas Policy Act

The Federal Energy Regulatory Commission (FERC) was created out of the old FPC and directed to reform natural gas pricing.

Essentially this was a reversal of the Phillip's decision as it allowed the deregulation of wellhead gas prices.

Production increased dramatically in response to pent-up demand which led to a gas surplus in the 1980s. However, a competitive market failed to develop, mainly due to the role pipelines played in the market. Since pipelines charged consumers enough to cover the cost of what they had to pay producers, there was no incentive for them to select the most competitively priced gas produced.

1985 FERC Order 436

This required pipelines to provide open access to transportation services allowing consumers to negotiate prices directly with producers and contract separately with the pipelines for transportation.

1987 FERC Order 500

Order 500 implemented shared contract costs on take-or-pay (TOP) contracts. Take-or-pay contracts leave the buyer responsible for some portion of the cost even if the product is not provided.

The combination of Orders 436 and 500 allowed producers to balance supplies of gas across production regions - if volume was lacking in one area, but plentiful in another, the producer could arrange to transport the surplus to where it was needed. The transportation system became a mechanism one party owned, but could be accessed by other parties on an equal basis - hence the concept of open-access. Differences between contract gas shipments and actual consumption left pipelines to make up the difference (balancing) and FERC made balancing a competitive service.

The establishment of gas market firms was also a feature of the 1980s, a direct result of deregulation. These firms, often with no ties to any one gas company, provided an intermediary service between a gas buyer and all other industry segments.

1989 Natural Gas Wellhead Decontrol Act

This act completed the process of deregulating wellhead prices. It required the removal of all price controls on wellhead sales as of Jan 1, 1993, allowing natural gas prices to be freely set in the market.

1991 Mega-Notice of Proposed Rulemaking (Mega-NOPR)

FERC requested comments from consumers and industry about new ways of structuring gas transportation.

1992 The Restructuring Rule (FERC Order 636)

Order 636 resulted in major restructuring of interstate pipeline operations. The most notable provisions of Order 636 were the separation of sales from transportation services (unbundling), so that customers could select supply and transportation services from any competitor in any quantity and combination, making TOP contracts a thing of the past.

Order 636 successfully impacted the market resulting in increased exploration, pipeline construction, falling prices and increasing profits.

2000 FERC Order 637

Further refinement of the remaining pipeline regulations to address inefficiencies in the capacity release market.

Deregulation in the gas industry has seen the development of commodity products that parallel the evolution of physical natural gas markets. Consumers can negotiate the best terms for supply and transportation to their site and simultaneously negotiate better terms in other markets as a price hedge. The natural gas commodity market is now the most active commodity market on the NYMEX.

The deregulation of the US gas industry has been extremely successful - production has increased, proved reserves have decreased, gas usage is increasing and consumer prices have dropped significantly.

[Editor's note: circumstances have changed significantly since Platts wrote this conclusion.]